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# THE FUNCTION AND PROBLEMS OF ECONOMIC THEORY

## I

### INTRODUCTION

*The conception of economics as a purely "descriptive" science rests upon a misconception of the history of economic theory.*

The discussion now current among economists over the immediacy of the relation of economics to social reform has been precipitated by the fact that while the marginal variants of orthodox theory have been subjected to more and more searching criticism of late years, definite attempts have at the same time been made in this country and in England to reconstruct economic theory upon a wholly different set of basic assumptions than the ones which underlie the classical doctrines. It is natural, therefore, that the difference of opinion upon the function of economic science, which is a by-product of this movement away from orthodox theory, should be extremely wide.

It is limited on one side by such writers as J. B. Clark, who considers the business of political economy to be the examination of facts, the exposition of movements and tendencies, and the formulation of laws.<sup>1</sup> At the other extreme stand men like Hobson, whose work constitutes an attempt "to reduce the 'social reform' movement to a definite theoretical statement."<sup>2</sup> Between these two extremes there is a great variety of opinions. For example, Davenport states definitely that the economist must stick close to the facts, sedulously avoiding any expression of moral approbation or condemnation, and he adheres to this definition of the business of economics through the bulk of his *Economics of Enterprise*. But the violence of the castigation which he lets loose upon the existing order of economic arrangements in his final chapter suggests that he has withheld his criticism throughout the book only to store up ammunition for an annihilating barrage fire at the

<sup>1</sup> J. B. Clark, *Essentials of Economic Theory*, Preface.

<sup>2</sup> W. H. Hamilton, "Economic Theory and 'Social Reform,'" *Journal of Political Economy*, XXIII, 563.

end.<sup>1</sup> Another interesting illustration is the view of Thorstein Veblen, who has a way of announcing in occasional footnotes (doubtless with his tongue in his cheek) that he is engaged only in describing economic phenomena as accurately as may be, and that if the categories which he is forced to use "carry an undertone of depreciation as used in the speech of everyday life," it is only an unfortunate accident. Those categories, he insists, with the utmost possible sarcasm, are employed only "for want of better terms that will adequately describe the same range of motives and of phenomena," and "are not to be taken in an odious sense."<sup>2</sup>

It is not the purpose of this paper, however, to appraise the arguments of such disputants as those whose opinions have just been cited. In the heat of the controversy over the function of the science of political economy the exponents of the "descriptive" theory of economics quite commonly refer to the past history of the science as though it constituted a complete justification for their insistence and a complete proof of all their arguments. They feel that the political economy of the century following the publication of the *Wealth of Nations* "sought to obtain laws which fixed the 'natural' prices of goods and those which in a like way governed the natural wages of labor and the interest on capital."<sup>3</sup> It was, according to this view, a pure science. As the standard-bearers of the pure science of economics, therefore, they naturally feel that their arguments are peculiarly sound as against those of the men who are so patently innovators and iconoclasts. The crux of the whole controversy seems, therefore, to be this common belief of the orthodox theorist that his position has the special sanction of history. But this common-sense interpretation of the part played by economic science in the past has little more of validity about it than most of our accepted beliefs. At all events I shall attempt to outline in this paper another theory of the history of political economy than the one generally held, and I shall try to show that seen in the light of this theory the recent developments in economics indicate that the science is returning to its proper and normal function rather than departing from it.

<sup>1</sup> Davenport, *Economics of Enterprise*, pp. 29, 30, and the final chapter.

<sup>2</sup> Veblen, *Theory of the Leisure Class*, p. 97 (footnote on "Waste").

<sup>3</sup> J. B. Clark, *op. cit.*, Preface, p. v.

Obviously it would be absurd to attempt to "prove" anything in so short a paper about so vast a subject as the history of a science—particularly if the historical study is pursued, not as an end in itself, but for the light which it will throw on the function and the problems of the science. The interpretation of the history of economic theory which I desire to suggest here could not by any stretch of the imagination be regarded as established until all the available literature of the subject had been rehearsed. Furthermore, this is a theory that economic thought proceeds through the successive phases of a cycle which may reasonably be expected to repeat itself, though but one such cycle is followed through by way of illustration. Therefore one could hardly suppose the theory to be very thoroughly demonstrated until it has been verified by future developments.

Instead of marshaling the historical data and making a great show of deducing the interpretation from them by some inexorable logic, I shall simply describe in general terms the different phases through which economic theory appears to me to pass, leaving the reader to verify or refute the theory by use of the historical facts at his command. For the sake of clarity, however, I shall attempt to illustrate each successive phase with a few selected references to some of the more interesting features of the development of economic theory through the last century and a half. So far as is possible these illustrations will be drawn from what appears to be the main current of economic thought. Some of the tributaries to that main current—such as those of St. Simon, Sismondi, and Marx—are of great interest and considerable importance in relation to this view of the history of political economy. Yet it has seemed wiser to avoid all complications for the sake of the clearest possible exposition as well as for the sake of brevity.

## II

*Economic theory moves through a cycle of criticism, reconstruction, approbation, and renewed criticism of the institutional order.*

There are several peculiarities of the history of economic thought in the nineteenth century which suggest that it is the nature of economic theory to be alternately revolutionary and reactionary—now bitterly criticizing and now placidly accepting the existing

organization of society. This process can be described best as a great cycle involving four phases—criticism, reconstruction, approbation, and renewed criticism. We appear just now to be nearing the completion of such a cycle.

A social crisis arises as a result of the long continuance of institutions which do obvious violence to justice and equality. But those institutions have behind them two powerful forces—traditional economic doctrine and vested pecuniary interests; and therefore they cannot be overturned until a theory of social reform has been promulgated in sufficiently complete and logical form to expose the fallacies and the sinister backing of the offending social organization and to offer an alternative in which the specific wrongs will be righted.<sup>1</sup>

But in order to achieve such a victory the economist must perforce construct a logical edifice of the most enduring sort, founded upon the rock of ages. During the period of readjustment following the consummation of the given reforms, therefore, two perfectly inevitable things occur. The very perfection of the logical instruments which were devised for the overturning of the old order causes them to be preserved for themselves, as though they had a certain inherent value, or as though their success in one battle insured their eternal invincibility. One school succeeds another; pitched battles rage between the left wing and the right over infinitesimal differences in the interpretation of the terminology, while the main body of doctrine is laid away for permanent preservation in the safety-deposit vault of an undeclared assumption.

And while all this is going on in the field of theory, sinister forces which have but recently been expelled from one sinecure are readjusting themselves to their new institutional environment. Probably no one supposes today that it is humanly possible to construct a social order in which there will be no flaw. The social reform which deals effectively with one institutional defect can hardly avoid leaving others. A Standard Oil magnate who died recently is reputed to have defied the country to devise anti-monopolistic legislation faster than the great trusts can find other

<sup>1</sup> Cf. Hamilton's "The Price-System and Social Policy" in this issue of this *Journal*.

ways of exercising the same monopolistic powers. It is inevitable, therefore, that under the new order of things which ensues after a period of social reform great financial forces will grow up which owe their then form and size to the reorganized social system, and will hence be ready to fight for its perpetuation. Thus in the natural course of events economic theory becomes aligned with "those who live by profit."

At the same time, however, economic doctrine is by no means wholly divorced from the actual problems of the industrial world. During the entire period of acquiescence which succeeds the formulation—for purposes of fundamental reform—of a polemical doctrine there still remains the task of extending the reform movement to every cranny of the vast social edifice. Thus, while the development of economic doctrines is almost wholly confined to the super-refining of a body of principles which is for the most part already given, the reforms which called forth the main outlines of the economic theory are carried on by the economists with undiminished zeal. But as the sinister forces against which the original attack was directed shift their front to accommodate themselves to the new social technique, the continuance of the same old instruments becomes less and less relevant. The weapon which drove vested interest out of its fortifications into a new type of intrenchment is a less and less effective instrument of social reform as the change in the technique of defense becomes more and more complete.

Economists are never wholly unaware of the obsolescence of their methods; but for a considerable period they meet the novel and unorthodox defense of their enemies, the foes to social justice, with unorganized attacks. While continuing to exert the strongest possible pressure upon what they still conceive to be the enemy's principal position—those institutions which were the subjects of the original attack—they send out an informal skirmishing line to harass his new operations. Thus, as it becomes apparent that protected privilege has not disappeared in spite of social reform, the economist, while holding to the body of doctrine which was a by-product of one frontal attack upon vested interests, naturally begins to throw out suggestions of possible ways of meeting the new difficulties without another cataclysmic change involving the

formulation of a new doctrine—suggestions for readjustments that will be external to the economy of his creed. And as the need for further reform becomes more and more acute, and the doctrine of the old reform movement becomes more and more obsolete, the number and importance of the economist's excursions outside the orderly region of his inherited economy become more frequent and of greater relative importance, until finally the economics "extra cathedra" becomes by force of social circumstances more vital than the doctrine "ex cathedra" and finds systematic expression as the theoretical background of a new movement of basic social reform.

### III

*The "laissez faire" theory was first formulated as an instrument of criticism and reconstruction of mercantilism.*

That the foregoing analysis is correct so far as the development of orthodox political economy out of the speculative portions of the *Wealth of Nations* is concerned there can be no doubt. While the subordinate articles of economic doctrine have varied widely during the course of the century, still the very extraordinary continuity of basic dogma is a matter of common observation and acceptance. It is interesting to note, however, that all the phenomena of the early development of the "principles of political economy" point, not only to the continuity of economic thought from Smith to the neo-classicists, but also to the truth of the theory that those "principles" were derived from arguments which were only a means to an end with Adam Smith, and that they were propounded, organized, and welded into a "system" by men who inherited Smith's instruments, but not, for the most part, his problems.

The common misconception, according to which political economy was thought to be the orderly development of a set of "principles" into a purely "descriptive" science, originated in the peculiar logical device which was a decisive factor in routing the argumentative forces of mercantilism—or rather of the dynastic conception of society of which mercantilism was the economic expression. The "natural order" first came into general use as a weapon of offense and defense against the "divine prerogative"

in the struggle of parliament with the Stuarts. It is very convenient indeed, as the rebellious American colonists discovered in their turn, to be able to base one's claims for a redistribution of rights and privileges upon something which gives a greater impression of ultimate authority than individual opinion. It was perfectly natural, therefore, in view of the greater vogue of the "natural order" as the basis of the new political faith of the times, that the same sanction should be applied to new economic ideals. The system and the doctrine of trade regulations which formed the framework of mercantilism being essentially dynamic in effect and in purpose, it was quite natural that the revolt to freedom of economic intercourse and to the exaltation of agriculture over manufacturing should adopt the technique of the political struggle. Thus in the writings of the physiocrats we find the chief weapon of rebellious republicans used to maintain an economic doctrine which included among other things "que l'autorité souveraine soit unique et supérieure à tous les individus de la société," and "que la propriété des bien-fonds et des richesses mobilières soit assurée à ceux qui en sont les possesseurs légitimes."<sup>1</sup>

This paradox in the use of the "natural order" in political and economic thinking was rendered relatively harmless by the fact that the physiocrats and Adam Smith took particular pains to avoid explicitly political controversy. Their work as economists was to combat, not dynasties, but trade regulations, and they were therefore content to define the economic system which pursuit of the "natural order" would prescribe to a sovereign without defining sovereignty itself.<sup>2</sup> This enabled them to use the same watchwords of liberty, equality, and justice as the basis of their economic proposals as were commonly employed in the struggle for popular forms of government.

That they recognized the polemic nature of their work can hardly be doubted in the face of their own explicit statements to that effect. Adam Smith has been regarded for so long as the first of an academic succession that his more vital relations to his predecessors and contemporaries<sup>3</sup> are frequently overlooked; but he was keenly

<sup>1</sup> Quesnay, *Maximes*, I, II.

<sup>2</sup> Adam Smith, *Wealth of Nations*, Book IV, chap. ix.

<sup>3</sup> *Ibid.*, Book IV, Introduction.



enough aware of them himself. His whole political economy can be regarded as an elaborate theoretical defense of a group of proposals the intent of which was to break down vested interest and so to bring about the greater welfare of the community as a whole. His attack upon mercantilism was an attack upon predatory wealth intrenched behind government grants and regulations. He said:

It cannot be very difficult to determine who have been the contrivers of this whole mercantile system; not the consumers, we may believe, whose interest has been entirely neglected; but the producers, whose interest has been so carefully attended to; and among this latter class our merchants and manufacturers have been by far the principal architects. In the mercantile regulations . . . the interest of our manufacturers has been most peculiarly attended to; and the interest, not so much of the consumers, as that of some other sets of producers, has been sacrificed to it.<sup>1</sup>

The so-called internationalism of Adam Smith was a strategic part of the same attack upon the bloated plutocracy of his day. Smith hurled the thunderbolts of *laissez faire* against the narrow nationalism of colonial exploitation and international trade rivalry, not because there is anything inherently more idealistic in freedom of intercourse between nations or in local self-government, but because the concrete expression of the nationalism of the times was the well-nigh universal practice of sacrificing the public to a small group of favored merchants and manufacturers.<sup>2</sup> Restraints were put upon the importation of all foreign commodities, and bounties upon the exportation of certain products, artisans were prevented from moving to customer countries, colonial markets were created by the rigid exclusion of foreign-made goods—all in the

<sup>1</sup> Adam Smith, *Wealth of Nations*, Book IV, end of chap. viii.

<sup>2</sup> It is a well-known fact that mercantile doctrines were formulated for the most part by successful merchants. This fact need not necessarily be interpreted as impugning the sincerity of the mercantilist writers. On the contrary, it is to be understood as explaining why those writers were able to expound economic doctrines which, judged in the light of modern standards of welfare and by unprejudiced minds, are so patently fallacious. The shining example of this sort of thing is Sir Josiah Child, the author of the *Discourse upon Trade*. Sir Josiah was able to control the East India Company and to divert an income of hitherto unheard-of proportions to his own pocket by the judicious corruption of court, commons, and electorate. For a description of his methods see Macaulay's *History of England*, chap. xviii.

interest of the favored producers<sup>1</sup> and to the "almost constant" detriment of both the native and the colonial consumer.<sup>2</sup>

But no fight against economic inequality and injustice can succeed except in so far as a feasible substitute can be offered for the existing order. It is to be expected, therefore, as a matter of good logic, that any proposed social reform will meet with general acceptance only after it has been clearly demonstrated that the new system will be proof against the corruption which has disintegrated the old. Adam Smith was well aware of this; he saw that an assault upon mercantilist practices could be successful only if it included an attack on the economic theory which, in effect, justified those practices. This meant that he must formulate an economic doctrine to which mercantilist practices would be repugnant. The self-evident fact that the evils which he was interested in combating were immediately due to governmental interference (instigated by the "special interests") in industrial affairs gave him his clue; the ethical theories which had formed the background of his thinking during his entire mature life showed him how to follow out that clue. The result was the economics of the "natural order," *laissez faire*, and the "guiding hand."

This phase of Smith's work has been the subject of such universal discussion that it has almost come to be taboo; but it is necessary to speak of it long enough to point out, first, that the doctrines of value, rent, and wages derive their significance entirely from the fact that they are a part of the theoretical justification of the attack upon the existing governmental regulations of trade

<sup>1</sup> See William Cunningham, *Growth of English Industry*, Part III, chap. xi. Of course, the extent to which governmental interference in industrial affairs is prompted by the "special interests" is always a matter of general speculation about which little evidence can be gathered; but the more intelligent business men usually have some inkling of what is going on, and Adam Smith had many acquaintances among this class. Then, as now, facts which can be cited without fear of the charge of libel were brought to light only when special investigation followed some particularly notorious affair—such, for instance, as the investigation of the South Sea Company. This investigation brought to light the fact that 122 lords and 462 commoners had profited to the extent of several millions of pounds out of the nefarious activities of the South Sea Company. For an account of this investigation see W. R. Scott, *Joint Stock Companies to 1720*, III, 331-46.

<sup>2</sup> Adam Smith, *op. cit.*, Book IV, chap. viii.

and industry; and, secondly, that since Smith's main argument was concentrated upon the destruction of certain specific abuses in the economic organization of his own time, it is absurd to attribute an infinite efficacy for the solution of all subsequent problems of freedom and regulation either to his doctrines themselves or to his own opinion of them. That is, as regards the first point, one must bear in mind constantly the fact that Smith was not reasoning in a vacuum; that he intended all through the first book, for instance, to come out at the end with the conclusion that the interests of his opponents, "those who live by profit," are "never exactly the same with that of the public," since their profits are "low in rich and high in poor countries," and that they of all men know their own interests and are constantly seeking to obtain governmental advantages in the pursuit of them.<sup>1</sup> And, in the second place, Smith made no pretense of dictating the form of all future industry and commerce. He proposed the abolition of a specific set of economic obstructions on the theoretical grounds that the economic order is an automatic machine which needs no regulation; yet he also specifically recognized the beneficence of several types of governmental regulation of industrial affairs.<sup>2</sup> His theories of *laissez faire*, therefore, have no necessary reference to any other problems than those with which he was dealing.

#### IV

*The success of the economics of "laissez faire" led to the elaboration and perpetuation of the theory for its own sake.*

Bentham's *Manual of Political Economy* was an early instance of the attempt to draw together the theoretical phases of Smith's attack on mercantilism into a formal "science" of economics. The attempt to reduce Smith's principles to a state of absolute logical finality received a good start from Bentham's insistence that economic theory should not recognize the regulation of even the maximum rate of interest.<sup>3</sup> At the same time Bentham was engaged in working out an ethical system which was practically a

<sup>1</sup> Adam Smith, *op. cit.*, Book I, chap. ii.

<sup>2</sup> See, for instance, his remarks on the fixing of a legal rate of interest in Book II, chap. iv.

<sup>3</sup> Bentham, *Defense of Usury*; see letter xiii.

transfusion of Smith's arguments into a theory of the moral organization of society.<sup>1</sup>

That the functional significance of Adam Smith's work was being forgotten at the same time that some of the theories of his devising were being perpetuated and perfected is clearly indicated by the changed attitude of economists toward their work. Malthus made it the "first business" of the social philosopher "to account for things as they are; and until our theories will do this," he said, "they ought not to be the ground of any practical conclusion."<sup>2</sup> This does not amount to a complete denial of the practical function of economic theory; but it does relegate the work of social reconstruction, which with Smith was anterior to the formulation of theory, to a place subordinate and posterior to the discovery of the "laws which regulate the movements of society."<sup>3</sup> So far as doctrine is concerned Ricardo "is essentially of the school of Smith, whose doctrines he in the main accepts, whilst he seeks to develop them, and to correct them in certain particulars";<sup>4</sup> yet he not only considered it the "principal problem in political economy . . . to determine the laws which regulate this distribution (rent, profit, and wages)," but even deviated from Smith's conception of the function of the economist so far as to maintain that if his principles should be found correct "it will be for others, more able than himself, to trace them to all their important consequences."<sup>5</sup> Senior took the final step. While endeavoring to resolve his science to a geometry of four axioms, "the first a matter of consciousness, the three others matters of observation . . . scarcely requiring proof or even formal statement,"<sup>6</sup> he specifically excluded all problems of welfare and of social reform from the economist's sphere of influence. "All these are questions of great interest and difficulty, but no more form part of the science of political economy, in the sense in which we use that term, than navigation forms part of the science of astronomy."<sup>7</sup>

<sup>1</sup> See *Lettres d'A. Comte à J. S. Mill*, p. 4. Also Benedetto Croce, *Philosophy of the Practical*, English trans., Part II, chap. vii.

<sup>2</sup> Malthus, *Principles of Political Economy*, p. 8.     <sup>3</sup> *Ibid.*, p. 10.

<sup>4</sup> Ingram, *History of Political Economy*, p. 122.

<sup>5</sup> Ricardo, *Principles of Political Economy*, preface to the first edition.

<sup>6</sup> Senior, *Political Economy* (6th ed.), pp. 3, 26.     <sup>7</sup> *Ibid.*, p. 2.

John Stuart Mill wrote his major contribution to the subject with the avowed intention of following what he conceived to be the lead of Adam Smith; but although his conception of Smith's work as the "philosophy of society" was a specific recognition of phases of Smith which had been more or less lost sight of, Mill did not apprehend the purely occasional and directive nature of Smith's theoretical achievements.<sup>1</sup> Furthermore, Mill's recognition of social phenomena and problems which had escaped the direct attention of earlier writers was recorded as a series of "extra cathedra" addenda to his formulation of orthodox economic doctrine, as will be noted in a later paragraph. Consequently his book has been quite generally received as "an admirably lucid and even elegant exposition of Ricardian economics . . . but, notwithstanding the introduction of many minor novelties, it is, in its scientific substance, little or nothing more."<sup>2</sup> Mill's extraneous qualifications of economic dogma did not prevent him from carrying on the accumulating tradition of economics as the science of value, rent, wages, interest, and profits.<sup>3</sup>

Furthermore, in spite of intense controversy over moot points in value theory, one may safely say that modern orthodox economics does not differ materially from that of J. S. Mill. The rise and growth of the various "schools" which have attempted to give some special terminological form to the economics of free competition is so familiar to everyone that it needs only to be mentioned. It is very well recognized that the violent disputes between the exponents of the various types of logical, geometrical, and algebraic marginal analysis are dealing only with the technique of economic doctrine, and that the very intensity with which the terminological controversy is carried on is the surest indication of the fundamental agreement of all the schools in the major assumptions of classical economics.<sup>4</sup>

<sup>1</sup> J. S. Mill, *Principles of Political Economy*, Preface.

<sup>2</sup> Ingram, *op. cit.*, p. 149.

<sup>3</sup> *Ibid.*, p. 148, note on Laughlin's abridgment of Mill.

<sup>4</sup> Veblen calls the whole marginal method of analysis a "taxonomy" that accepts the "pre-Darwinian" assumptions of classical theory. See Veblen's article, "Professor Clark's Economics," *Quarterly Journal of Economics*, XXII, 158.

## V

*The mercantile interests gradually came to support "laissez faire."*

Before turning back to note the particulars in which the economists of the nineteenth century, on one hand, carried through to a logical conclusion the social-reform movement begun by Adam Smith, and, on the other hand, threw out occasional informal suggestions relative to new social problems which strict logic excluded from their systems, it is important to note how the objects of Smith's polemics fared under the new system of natural liberty. The readjustment of "business" to the new conditions created by the breaking down of the protecting regulations which had been thrown about the favored industries was complicated by two features of the industrial development of the period which are nearly unique in history. In the first place, Adam Smith wrote, as everyone knows, just at the beginning of the introduction of the technique of machinery driven by steam-power. Secondly, the preliminary eras of discovery and the founding of North American colonial enterprises under conditions of great hardship and little profit were just giving way to a period during which the North American colonies—thirteen of them enjoying a hard-won political independence—were beginning to expand in territory and population at a rate that was simply prodigious. This combination of circumstances produced the well-known phenomenon of the rapid rise of modern machine industry. In a period of tremendous commercial and territorial expansion—when great capital funds are accumulated, all of which naturally belong to someone—many poor men must necessarily become rich, some because of great native genius for seizing upon the opportunities, many by sheer force of circumstances. In such a period, therefore, the voice of the self-made man is continually heard loudly praising his creator and naturally enough the conditions under which his genius received such golden recognition.

The philosophy of *Poor Richard's Almanac*, therefore, is not a servile reiteration of the doctrines of the *laissez-faire* economists. It is rather the voice of successful "business" pronouncing its benediction upon the conditions of its success. But the condition

which most readily occurs to the business man as the determinant of his success is that he was "free" to carve out his own destiny. This naturally seems to him more important than that there was an exceptionally large and juicy continent to be carved just as he happened along, since it throws all the emphasis upon his own prowess. He therefore sees in the great industrial changes of the nineteenth century only "what business has done for the country." He is compelled by his own egotism to the belief that the system which has been so good for him has at the same time been the best possible régime for the interests of society. "By the customary apologetic generalization from individual acquisitive interests to general social welfare, the idea of social good as a consequence of individual gain became a part of currently accepted social philosophy and currently formulated economic theory"—the economic theory of the men "whose pecuniary interests found expression in the political creeds of liberal parties," and "whose fortunes were bound up with individual liberty."<sup>1</sup>

In some such fashion as this it has come about that "those who live by profit," firm in the conviction of the identity between the success of "business" and the proper organization of society, and secure in the control of wealth and power, have become the defenders of the freedom of industry from governmental regulation. Surely there is nothing so very surprisingly illogical in the adoption, by those who are the most able to exert pecuniary pressure, of a creed of "freedom of contract" which "comes to mean, in effect, not only that one individual or group of individuals may not legally bring any other than pecuniary pressure to bear upon another individual or group, but also that pecuniary pressure cannot be barred."<sup>2</sup> To such men as these, holding such views as these, every attempt to protect the laborer, the consumer, and the small business man against their rapacity—from Owen's agitation for factory legislation to the Danbury Hatters' case—has been denounced as governmental favoritism, "the subserviency of representatives of the whole people to the dictation of class legislation."<sup>3</sup>

<sup>1</sup> W. H. Hamilton, *The Ethical Implications of Current Economic Theory*. Unpublished. Cf., also, Hamilton's article in this issue of this *Journal*.

<sup>2</sup> Veblen, *Theory of Business Enterprise*, p. 274.

<sup>3</sup> "Resolutions of the National Association of Manufacturers," May, 1913.

Through the course of the development of modern capitalistic industry the theory of mercantilism (but not its practices) has been forgotten by the interests of which it was formerly the chief bulwark, and the creed which they now profess is substantially derived from the arguments by which the old order was broken down. "We protest against class legislation . . . and we assert that all forms of class legislation are un-American and detrimental to our common good. We pledge our loyalty to our judiciary, upon the maintenance of which, unswerved by passing clamor, rests the perpetuation of our laws, our institutions, and our society."<sup>1</sup> Thus "those who live by profit" have become the arch-defenders of the social arrangements which were forced upon them with the greatest difficulty. The continuity of the process lies in the fact that they are now, as then and always, the ardent supporters of whatever is.

## VI

*Classical economics was never wholly descriptive.*

It must not be inferred from this sketch of the manner in which both economic theory and business interests became, through a century of *laissez faire*, the defenders of the existing order of extreme individualism, that the economics of the nineteenth century is a doctrine of complete assent. Whatever a man's creed may be, there are always many things in the world which provoke him to raise a dissenting voice, and economists are always especially susceptible to this particular type of stimulus.

In the first place, the breakdown of mercantilism was by no means consummated in the time of Adam Smith; there still remained, long after individualism had become the rule of the day, many social and legal institutions which had not yet been adapted to the general scheme of *laissez faire*. Furthermore, fresh economic problems are constantly arising in every society into the solution of which the economist is sure to be drawn, as Ricardo was drawn into the bullion controversy. These activities are, in a sense, summed up in the legal-reform movement which was lead by Bentham and received the full support of the entire classical group.

<sup>1</sup> "Resolutions of the National Association of Manufacturers," May, 1913; *Political Creed*, arts. 3 and 4.



The reconstruction of the antiquated legal system of England was in actual truth the creation of a science of jurisprudence in the image of Ricardian economics. It rested upon two fundamental principles: (1) "The right aim of legislation is the carrying out of the principle of utility, or, in other words, the proper end of every law is the promotion of the greatest happiness of the greatest number." (2) "Every person is in the main and as a general rule the best judge of his own happiness. Hence legislation should aim at the removal of all those restrictions on the free action of an individual which are not necessary for securing the like freedom on the part of his neighbors."<sup>1</sup> It was to the prosecution of these reforms that Bentham devoted his life. "Bentham was primarily neither a utilitarian moralist nor a philanthropist: he was a legal philosopher and a reformer of the law."<sup>2</sup> But the aspect of his work which is most significant in this connection is the fact that in spite of its importance it was not a work of fundamental social reform, as was that of Adam Smith. For utilitarianism is, after all, only the ethics of *laissez faire*, and its application to the field of jurisprudence is not a new reform movement but rather a continuation of the general attack upon mercantilism.

While the poor-law and free-trade agitations centered about the reconstruction of certain laws, they were sufficiently important to be classed as separate movements; for each called forth a considerable literature of its own. At the same time it is equally obvious that they were really only chapters in the individualistic reaction against mercantilism. The inefficacy of the poor laws followed as an inevitable corollary from the Malthusian doctrine of population.

The poor laws of England tend to depress the general condition of the poor in two ways. Their first obvious tendency is to increase population without increasing the food for its support. . . . Secondly, the quantity of provisions consumed in workhouses . . . diminishes the shares that would otherwise belong to the more industrious and more worthy members, and thus, in the same manner, forces more to become dependent.<sup>3</sup>

And this entire argument was an equally direct consequence of the original postulate of *laissez faire*. If it is established that

<sup>1</sup> Dicey, *Law and Public Opinion in England*, pp. 136, 146.

<sup>2</sup> *Ibid.*, p. 127.    <sup>3</sup> Malthus, 3d edition of the *Essay*, p. 172.

"wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature," then it follows that "the clear and direct tendency of the poor laws is in direct opposition to these obvious principles."<sup>1</sup>

Although free trade is an equally obvious corollary to the general doctrine enunciated by Adam Smith, and although restrictions upon exportation and importation fell away fairly rapidly, still, either because of the natural strength of the landed gentry in Parliament, or, as Ricardo suggests,<sup>2</sup> because the landowner could cite the authority of Adam Smith for imposing high duties on the importation of foreign corn, the corn laws continued to be the subject of a very bitter controversy which lasted until their repeal in 1846. The classical economists took an important part in the anti-corn-law struggle; but here again their work was largely the rectification of a logical error into which Smith had been led by his obsession with the evil ways of traders and manufacturers. Malthus and Ricardo pointed out what Smith had overlooked, namely, that "landlords have a most decided interest in the rise of the natural price of corn; for the rise of rent is the inevitable consequence of the difficulty of producing raw produce, without which its natural price could not rise."<sup>3</sup> But the doctrine of rent was a contribution to economic theory only from the point of view of the elaboration of formal principles; doubtless Adam Smith would have joined the Anti-Corn Law League himself had he lived to see Parliament in the control—and the country at the mercy—of the landlord, as it had earlier been in that of the manufacturer.

While these reforms greatly extended the scope of *laissez-faire* doctrine they touched only certain phases of the great social problems which had been inaugurated by the rapid growth of factory production, and did not cut straight at the source of infection, as Adam Smith at least intended to do. To accomplish this task the classicists would have been obliged to alter their central doctrines—to make their theory take cognizance of the social needs of the day. Adam Smith was great enough to see that

<sup>1</sup> Ricardo, *op. cit.* (Gonner's ed.), p. 82.

<sup>2</sup> *Ibid.*, p. 302.

<sup>3</sup> *Ibid.*, p. 298.

that is the function of economic theory; the classicists were not. They lived too soon after the overwhelming success of the initial promulgation of *laissez faire* to be able to modify their individualism even for the protection of the miserable victims of the early decades of the factory system. Malthus' refusal to admit the theoretical possibility of the evils of an apparent oversupply of labor being overcome except by a "moral restraint" which he had recognized in his first edition to be chimerical enough,<sup>1</sup> and Ricardo's heartless demonstration that "in the natural advance of society the wages of labor will have a tendency to fall," and that the only escape from the horrors of this process was the rather contradictory "stimulation" of the laboring classes "to have a taste for comforts and enjoyments"<sup>2</sup>—such doctrines were well calculated to win for economics the soubriquet of "Dismal Science."

The surprising thing, however, in view of the orthodox interpretation of the function of economics, is not that the classicists were dismal scientists, but that they were so unscientific as to take any cognizance of the need for social reform. After Malthus had formulated his principle of population in all its details in his first edition of the essay, he rewrote the whole thing, making no substantial changes in doctrine, but devoting his fourth book to a sermon on the virtues of a long and chaste bachelorhood. Ricardo stopped in the middle of his terrible chapter on wages and inserted a paragraph of gratuitous advice to the effect that if the laboring classes could be induced to acquire a standard of living involving a large margin of desirable but dispensable gratifications, the elasticity of that margin would ward off both indiscreet enlargement of families in times of plenty and unbearable hardship in times of want. If economics is a descriptive science and the economist is a detached searcher for the laws of the universe, why should men like Ricardo and Malthus have paused even to notice such mundane affairs as these? Why, if his business was only that of a clear expositor of the operation of social principles, should John Stuart Mill have gone quite out of the province of economic doctrine, as he himself formulated it, to defend state regulation of the hours of

<sup>1</sup> Malthus, 1st ed., in Ashley Classics, p. 14, ll. 3 and 4.

<sup>2</sup> Ricardo, *op. cit.*, p. 77.

labor,<sup>1</sup> governmental protection of the unwise consumer,<sup>2</sup> the direction of industry by the association of laborers with the capitalist and of laborers with one another,<sup>3</sup> and even the progressive taxation of incomes and consumption?<sup>4</sup>

The answer seems to be, as has already been suggested, that in spite of their obsession with the doctrines which they had assembled around Adam Smith's conception of the "natural" organization of society, the economists of the nineteenth century were unable completely to avoid the social problems of their own times. They assumed the rôle of reformers in spite of themselves, and therefore they turned aside every now and then—more and more frequently as time went on—to meet the demands of their own social situation. With John Stuart Mill there was already a considerable body of extraneous economic theory—such as that mentioned above—which had but little relation to the system, and was called into existence in a different manner from the main body of doctrine.

If this were an attempt at a demonstration, and not merely an illustration, of the theory here advanced of the functional history of economic thought, it would be necessary to study the latter part of the nineteenth century with the greatest care. Such a study will not be attempted here because it would represent too great a diversion from the main purpose of the paper. The principal features of the transition from the economics of "approbation" to the economics of "reconstruction" are, however, first, the rapid growth in importance of extra doctrinal economics, which was brought to a head by J. B. Clark's distinction between the older economics as the theory of a hypothetical "static" order and the newer speculation as the theory of the "dynamic" order, in which the exact operations of the classical principles are always disturbed by the forces of change; and, second, the growing tendency through the last two decades to expose and ruthlessly criticize the most fundamental assumptions of orthodox theory—a tendency which, perhaps, finds its culmination in a series of articles by J. M. Clark,

<sup>1</sup> J. S. Mill, *op. cit.*, Book V, chap. xi, par. 12.

<sup>2</sup> *Ibid.*, Book V, chap. xi, par. 7.

<sup>3</sup> *Ibid.*, Book IV, chap. vii, par. 4.

<sup>4</sup> *Ibid.*, Book V, chap. iii, par. 5.

now in process of publication.<sup>1</sup> Furthermore, that each of these tendencies is actuated by the growing perception of the absurd inadequacy of the fundamental notions of orthodox economics as the basis of a theory of progressive control of modern industrial society is a fact too generally recognized to demand more than mere mention.

## VII

*The growing insistence of the fundamental social problems with which orthodox theory cannot deal effectively is forcing fundamental changes in economic theory—and the inauguration of a new cycle.*

If, then, the interpretation of the natural history of economic doctrines which has been suggested in this paper is correct, one complete cycle has expired since the period of Adam Smith. The present generation should, according to this view, be undergoing a general social reconstruction reaching far down among the basic institutions of the economic order. And at the same time a new economic doctrine should be in process of formation as one of the instruments of control over the process of social renovation which should be as unlike the doctrines that underlay the old order as the individualism of the physiocrats and Adam Smith was unlike mercantilism.

There is a considerable amount of evidence that this is actually the case. Not only have many economists come to the conclusion that "if the program of social progress does not harmonize with the existing economic science . . . the fault is with economics";<sup>2</sup> but also in the last few years four notable attempts to correct this fault have been going on. Veblen, Hobson, Cannan, and Clay have systematically attacked the problem, not of revising economic doctrine, but of giving an account of the modern social order which shall square with the facts of social injustice and thus be relevant to the needs of the age.<sup>3</sup>

In three respects the work of these men is exactly parallel to that of Adam Smith; in a fourth it is equivalent to Smith's work though

<sup>1</sup> The first of these articles appears in the present issue of this *Journal*.

<sup>2</sup> Davenport, *op. cit.*, p. 528.

<sup>3</sup> L. C. Marshall's *Readings in Industrial Society*, to be issued from the press in the near future, will be an important addition to this literature.

necessarily divergent from it. First, instead of following the practice of the doctrinaire economists of making their books consist of discussions of "economic principles," they omit "a great deal of the discussion of wages, profits, and rent, which had some local importance a hundred years ago but is now obsolete,"<sup>1</sup> and they set out to give a thoroughgoing account of the structure of modern economic society and the manner in which that structure is dominated by the "machine process." Adam Smith began his book with a description of the division of labor, and followed that with a discussion of the manner in which business enterprises were then carried on by individuals and by nations. Secondly, they are as absolutely ruthless in their exposure of the fallacies involved in the supposition that the incomes which accrue to "pecuniary magnates are commensurate with their services to society," and they are as firm in their insistence "that the gains of these larger business men are a function of the magnitude of the disturbances which they create rather than of the productive effort,"<sup>2</sup> as Smith was in his attacks upon "those who live by profit." Thirdly, both before<sup>3</sup> and during the war<sup>4</sup> they have maintained as Smith did that it is not the welfare of nations which is served by the vast extension of the nations' commerce to include foreign and especially semicivilized countries; instead of this it is "the contrivers of the whole system" who profit—the mercantilists and exporters of speculative capital, dynasties, and dynastic statesmen. Fourthly, like Smith they have endeavored to formulate a conception of social welfare upon which to build; but, as Hamilton has pointed out, their task has not been as easy as Smith's.

Unlike Smith and the later economists, Hobson is concerned with a state of social well-being that can be attained only by conscious effort. It must be reached by careful planning, not by the automatic operation of a let-alone policy. He is therefore compelled by his problem to set up an elaborate standard of social welfare, appraising in their complex mutual relations all the elements of a well-ordered social whole.<sup>5</sup>

<sup>1</sup> Cannan, *Wealth*, Introduction, p. viii.

<sup>3</sup> Hobson, *Imperialism*.

<sup>2</sup> Veblen, *Instinct of Workmanship*, p. 354.

<sup>4</sup> Veblen, *The Nature of Peace*.

<sup>5</sup> W. H. Hamilton, "Economic Theory and Social Reform," *Journal of Political Economy*, XXII, p. 568.

## VIII

*Every science, "descriptive" or "directive," contributes to the solution of some practical problems.*

If the question whether economics is a descriptive or a directive science arose from a complete disjunction, it would be necessary to infer from the interpretation of the function of economic science proposed in this paper that the economics of the past has not been descriptive. But such a conclusion would be patently false. For even if it be granted that the problems of the science of economics have always been determined by the needs of the social order and that they always must be so determined, it certainly does not follow that economists are therefore not interested in obtaining really efficacious solutions of those problems. And of course the efficacy of the economist's thinking must depend upon the clarity of his vision—that is to say, upon the extent to which his scientific generalizations are true descriptions of the institutional order. A directive science must necessarily be a descriptive science.

Furthermore, it seems probable that the converse of this proposition is also true. However "pure" a science may be, however remote from "practical affairs" may be its search for the ultimate, it must proceed from the conviction that ultimate truth is somehow worth having, that having it would somehow make a difference in men's lives. The difference between sciences in point of practicality, therefore, seems to be, not even a difference of degree—since the most absolute science must contribute to some human need—but rather a difference in the nature of the problems of living to the solution of which the sciences contribute. The essential thing for every scientist to understand is, therefore, not whether his science is "pure" or not, but what the actual problems are about which all his scientific studies must be massed. It is to this understanding that such studies as the one here presented ought to contribute.

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